

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-11 L-03 NSAE-00

NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 SAJ-01

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FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 4672

INFO USOECD PARIS 630

USMISSION NATO

SECDEF WASHDC

CINCLANT

COMICEDEFOR

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L REYKJAVIK 1006

E.O. 11652: GDS

TAGS: ECON IC

SUBJECT: MAJOR ECONOMIC PROBLEMS FOR ANY NEW ICELANDIC GOVERNMENT

1. SOME IDEA OF THE MAGNITUDE OF ICELAND'S ECONOMIC PROBLEMS
CAN BE GAINED FROM CONCLUSION OF STILL-CONFIDENTIAL 65 PAGE
REPORT PREPARED FOR INDEPENDENCE PARTY LEADER GEIR HALLGRIMSSON
BY GOI DIRECTOR OF ECONOMIC RESEARCH, JON SIGURDSSON. REPORT,
WHICH MUST BE CONSIDERED THE MOST AUTHORITATIVE AND CURRENT
DOCUMENT NOW AVAILABLE ON ICELANDIC ECONOMY, MAKES FOLLOWING MAJOR
POINTS:

A) ICELAND'S 1974 TRADE DEFICIT WILL BE APPROXIMATELY US\$90
MILLION (VERSUS US\$34 MILLION IN 1973).

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B) GROSS FOREIGN BORROWINGS WILL BE ABOUT US\$95 MILLION IN 1974 (VERSUS ABOUT US\$62 MILLION IN 1973). THIS WILL STILL LEAVE OVERALL BALANCE OF PAYMENTS DEFICIT - A CONSEQUENT DECLINE IN RESERVES - OF SOME US\$21 MILLION.

C) ANY INCREASE IN GNP WILL BE OFFSET BY LOWER EXPORT PRICES.

D) IF WAGE AND PRICE MOVEMENTS CONTINUE UNCHANGED INFLATION WILL BE 50 PERCENT ON ANNUAL BASIS.

E) FREEZING PLANT INDUSTRY AS A WHOLE WILL LOSE SOME US\$28 MILLION IN 1974 (VERSUS PROFIT OF US\$3 MILLION IN 1973). HEALTH OF THIS INDUSTRY IS ABSOLUTELY ESSENTIAL TO ENTIRE ECONOMY.

F) CENTRAL GOVERNMENT MAY BE IN DEFICIT BY US\$5-10 MILLION. ACTUAL EXPENDITURES ARE EXPECTED TO BE ABOUT US\$56 MILLION (18 PERCENT) OVER ORIGINAL FORECAST OF US\$309 MILLION AND, BECAUSE OF HIGH IMPORTS AND INFLATION, ACTUAL REVENUES ARE FORECAST AT ABOUT US\$49 MILLION (16 PERCENT) OVER ORIGINAL BUDGET FIGURE OF US\$306 MILLION.

G) ICELAND'S TRADE DEBT WITH USSR AS OF JUNE 30 WAS \$31.3 MILLION OR 59 PERCENT OF GROSS FOREIGN EXCHANGE POSITION ON THAT DATE.

2. CURRENT SITUATION IS LARGELY A RESULT OF DECLINING FISH PRICES ABROAD, EXCESSIVE WAGE INCREASES DOMESTICALLY, AND THE ABSENCE OF ANY COHERENT GOVERNMENT ECONOMIC POLICY IN THE LAST THREE YEARS. THE SITUATION IS NOW SUFFICIENTLY BAD THAT THERE IS RECOGNITION BY ALL POLITICAL PARTIES AND BY THE GENERAL PUBLIC THAT THE PROBLEM CAN NO LONGER BE IGNORED. REORDERING THE ECONOMY IN A WAY THAT IS STILL ACCEPTABLE TO THE LABOR MOVEMENT WILL OCCUPY MUCH OF THE EARLY ATTENTION OF WHATEVER COALITION FINALLY FORMS A NEW GOVERNMENT.

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